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RUEAIIA/CIA WASHDC
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RHEFDIA/DIA WASHDC
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C O N F I D E N T I A L SECTION 01 OF 02 MAPUTO 000498

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SUBJECT: INDIA-MOZAMBIQUE RELATIONS FOCUS ON ENERGY

REF: A. 08 MAPUTO 1051
[1](#)B. 08 MAPUTO 511
[1](#)C. 07 MAPUTO 1471

Classified By: Charge d'Affaires Todd C. Chapman, Reasons 1.4(b+d)

[1](#)1. (C) SUMMARY: In February, Foreign Minister Baloi visited New Delhi to sign a bilateral investment agreement with India, and in April, the Mozambican Tax Authority and its Indian counterpart initialed a draft double taxation agreement. These Government-to-Government meetings mark the most recent interaction in a 500 year-old trading history between the two countries. Most recently, Indian companies have invested heavily in Mozambique's Moatize region, seeking to export its vast coal reserves to India in order to meet domestic energy demands. Indian companies are also playing a small role in offshore petroleum exploration in the north of the country, which is led by U.S.-based Anadarko Petroleum. While Indian private companies investing in Mozambique are concerned with the worsening business climate, it is the Government of India (GOI) through its parastatals that are leading the charge to secure Mozambique's energy exports. END SUMMARY.

INDIA-MOZ GOVT ACCORDS ON THE RISE

[1](#)2. (SBU) On February 19, the India-Mozambique Joint Commission met in New Delhi to sign a Bilateral Investment Partnership Agreement (BIPA). The Mozambican delegation, led by Foreign Minister Baloi, secured a \$25 million line of credit from India as well as a \$1 million grant to support capacity building in agriculture, energy, and human resources development. Baloi called on Indian businesses to consider further investment in textiles and extractive industries. Indian High Commission Economic and Political Officer Kaisair Alam told PolOff on April 8 that the \$25 million fell well-short of the \$100 million line of credit the Government of Mozambique (GRM) originally requested, and that the \$25 million had not yet been designated for any specific project. On April 15, the Mozambican Tax Authority and its Indian counterpart initialed a draft agreement in Maputo to prevent double income taxation, which is to be formalized later this year.

500 YEARS OF TRADING TIES

[1](#)3. (C) India and Mozambique share a 500-year history of trade which began with the arrival of Gujarati traders, and continues today with approximately 25,000 persons of Indian

origin in Mozambique, 20 percent of those retaining their Indian citizenship, according to the Indian High Commission. The majority of Indians in Mozambique are small business owners. However, India's growing demand for energy has led to a significant Government of India (GOI) led investment in Mozambique's extractive industries, with India set to be the main destination for coal from the Moatize region. Alam explained to PolOff that India continues to depend on coal-fired energy sources, as their civilian nuclear program has yet to develop sufficiently, currently supplying no more than 3 percent of India's energy needs.

INDIA LEADS THE "COAL RUSH" TO TETE PROVINCE

¶4. (SBU) In June 2008, the African Development Bank forecasted that investment in exploring Mozambique's coal reserves could reach \$30 billion over the next ten years, with the country becoming the second largest African coal producer after South Africa. India is becoming increasingly dependent on coal to fire its domestic power, cement, and steel plants. Indian companies are heavily involved in Mozambique's coal-rich Tete Province, with Tata Steel holding a 35 percent \$88 million stake in Australian firm Riversdale's Benga tenement, which covers 4,560 hectares or 2 percent of Riversdale's 250,000 hectares of mining concessions, representing the largest tenement in the Moatize area. Riversdale estimates that coal resources in Benga's northern section are 2.1 billion tons. According to the Indian High Commission, Jindal Steel and Power (JSPL), a

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private Indian company, also holds a stake in two coal tenements in Moatize. Press reports also state that Indian concerns ArcelorMittal, Global Steel Holdings, PK Ores Private Ltd, and BEML Midwest have acquired coal concessions in Tete.

INDIAN CO'S HANDLING EXPORT LOGISTICS AND...

¶5. (C) Indian consortium Rites and Ircon International are due to complete the rehabilitation of the Sena railway line leading from Moatize to the Port of Beira by September, which will act as the main conduit for export of the region's hard coking 10 percent ash coal. Both Rites and Ircon are subsidiaries of state-owned Indian Railways. Coal India Limited (CIL), another parastatal, has concessions for two additional exploration blocks in Moatize and is considering joining Rites and Ircon in their efforts to support the 850 kilometer rail line linking Moatize and Beira Port which will use Indian railcars to export up to 12 million tons of coal annually. Alam noted that Rites and Ircon have not been able to come to an agreement with Vale about freight charges along the line, but expressed hope that this could be resolved.

...DABBING IN PETROLEUM TOO

¶6. (SBU) Indian subsidiaries of parastatal Bharat Petroleum and private multi-national Videocon Industries paid \$75 million in August 2008 for 10 percent stakes in U.S.-based Anadarko Petroleum's offshore exploration blocks in northern Mozambique. Anadarko continues to analyze the seismic data from their concessions and plans to drill exploratory wells beginning in 2010. Besides the 10 percent stakes held by Bharat Petroleum and Videocon, Anadarko has a 36.8 percent stake followed by Mitsui of Japan, Artumas of Canada, and Mozambican parastatal Hydrocarbons of Mozambique (ENH).

CONCERNS OVER BUSINESS CLIMATE WIDESPREAD

¶7. (C) Indian companies share concerns similar to U.S. businesses about the worsening business climate in Mozambique. Alam explained that though Indian companies have a significant and longstanding presence in the country, they complain about the increasingly challenging business climate, including recent changes to the labor regulations (septel). As an example, Alam pointed to an Indian firm interested in establishing a cement company in Mozambique, lamenting the time taken by the Investment Promotion Center (CPI) to approve the investment.

COMMENT: INDIA'S COAL STRATEGY HEATING UP

¶8. (C) The heavy presence of Indian parastatals in Moatize suggests that the GOI is executing a well-planned strategy to make an energy play in coal-rich and potentially oil-rich Mozambique in an effort to feed its ever-increasing domestic energy needs. The February ministerial meeting in New Delhi and the significant population of resident Indians underscore the close and longstanding relationship between India and Mozambique. Indian High Commissioner to Mozambique Rajinder Bhagat is very active commercially, always watchful of the Chinese who are viewed as commercial rivals, and cooperative with U.S. diplomats. Bhagat gets personally involved in commercial negotiations on behalf of Indian firms, including contacting senior Mozambican government officials pressing for better terms for Indian companies. While Indian investments in Mozambique are likely to continue increasing, it is noteworthy that the Indian High Commission in Maputo appears preoccupied with the worsening business climate in the country, which could hamper future investments.
Chapman